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REPORT
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COTTON CLASSING SERVICES TO PRODUCERS

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Mr. HELMS, from the Committee on Agriculture, Nutrition, and Forestry, submitted the following

REPORT

[To accompany S. 2085]

The Committee on Agriculture, Nutrition, and Forestry, to which was referred the bill (S. 2085) to amend section 3a of the Cotton Statistics and Estimates Act to provide continuing authority to the Secretary of Agriculture for recovering costs associated with cotton classing services to producers, having considered the same, reports favorably thereon with an amendment in the nature of a substitute and recommends that the bill (as amended) do pass.

SHORT EXPLANTION

S. 2085 amends and extends, for fiscal years 1985 through 1988, the authority of the Secretary of Agriculture to charge fees for cotton classification services provided to producers by the Department of Agriculture, and authorizes the Department to invest in interest-bearing accounts the operating balances of the trust fund containing fees collected for voluntary inspection and grading services provided under the Agricultural Marketing Act of 1946.

Under the bill, the Secretary is required to make cotton classification services available to producers of cotton and to provide for the collection of fees for such services from participating producers, or from agents who voluntarily agree to collect and remit the fees on behalf of producers. The uniform per bale fee, together with the proceeds from sales of cotton samples submitted for classification, must cover, as nearly as practicable, the cost of the services provided, including adminstrative and supervisory costs. Except for

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special classification services provided at the request of a producer, increases in the fee level are subject to certain restrictions. The fees may be deposited in interest-bearing accounts or U.S. Government debt instruments and are available without fiscal year limitation.

In addition, the bill authorizes the Secretary to invest the funds contained in the trust fund account, maintained under the Agricultural Marketing Act of 1946 in connection with voluntary grading and inspection services provided by the Secretary on a fee basis, in interest-bearing accounts or U.S. Government debt instruments and to apply, without fiscal year limitation, any interest earned on such funds against the cost of providing such services.

Committee Amendment

The Committee amendment to the text of the bill strikes all after the enacting clause and inserts in lieu thereof an amendment in the nature of a substitute which would make the following changes:

(1) Authorizes the Secretary of Agriculture to invest in interest-bearing accounts any operating balances in the trust fund containing fees collected in connection with voluntary inspection and grading services provided by the Secretary under the Agricultural Marketing Act of 1946.

(2) Makes technical and conforming changes.

The Committee amendment to the title of the bill is technical in nature.

Background

Prior to 1937, cotton classing services were provided on a fee basis by organized cotton improvement groups to encourage the marketing of cotton on the basis of quality. Free cotton classing was provided in some cases to encourage producers to join groups which carried out cotton improvement programs.

In 1937, Congress amended the Cotton Statistics and Estimates Act by adding the Smith-Doxey amendment. Also known as the Cotton Classification Act, the Smith-Doxey amendment provided for the classification of cotton on the written request of any group of producers organized to promote the improvement of cotton. The Secretary of Agriculture was directed to determine and make available to producers the classification of any cotton produced in the United States in accordance with official cotton standards of the United States. Under this authority, classification services were provided to producers without cost. In addition, the Secretary was authorized to pay the transportation charges and to furnish tags and containers for the samples of cotton submitted for classification.

The Smith-Doxey amendment also provided that cotton samples submitted for classing would become the property of the Federal

Government. After enactment of the Federal Property and Administrative Services Act of 1949, the Department of Agriculture was required to dispose of the cotton samples received for classing under surplus property regulations. Under these requirements, all loose cotton accumulations must be made available to other Government agencies or sold with the net proceeds deposited in the Treasury as miscellaneous receipts.

In the Omnibus Budget Act of 1981, the Smith-Doxey amendment was modified to provide for the Secretary to charge and collect fees covering as nearly as practicable the cost of providing cotton classification services, including costs incurred in connection with supervising and administering cotton classing, and for the establishment of cotton standards. These provisions went into effect on October 1, 1981.

The 1981 amendments authorized the Secretary to charge fees for cotton classification services only through the end of fiscal year 1984. An overall ceiling on the total fees to be collected during each of the fiscal years 1982 through 1984 was established at $12 million, $12.4 million, and $13 million, respectively, to keep the new fee system within reasonable limits. In addition, the Secretary was required to establish the fees at a level that would not significantly discourage the use of the service or destroy the Federal cotton classing system. The Secretary was also required to hold annual meetings with representative of the cotton industry for the purpose of reviewing the operation of the cotton classing and warehouse inspection programs. Prior to the establishment of the user fee system, the Department of Agriculture was classing about 97 percent of the U.S. cotton crop annually. Imposition of these fees has not materially reduced that percentage.

To further lessen the impact of the fee system on growers, the 1981 amendments also provided that cotton samples submitted for classing would no longer be subject to provisions of the Federal Property and Administration Services Act of 1949, but, instead, would be sold by the Secretary with the net proceeds to be applied against the cost of providing the classification services.

In a further effort to assure that fees collected were kept to the minimum necessary to provide needed services, the 1981 amendments authorized the Secretary to invest operating balances in interest-bearing accounts. Interest collected would be returned to the program to offset program operating costs.

Purpose and Need for Legislation

The present authority for charging fees for cotton classification services expires September 30, 1984. S. 2085 would extend through

fiscal year 1988 the authority of the Secretary of Agriculture to recover from cotton growers the costs associated with providing cotton classing services. In the absence of renewed authority to continue to charge and collect these fees, it is estimated that the Department of Agriculture could need appropriated funds in the neighborhood of $12 million to $14 million annually to continue providing cotton classing services to growers at current operating levels.

The user fee concept has now been effectively intergrated into the cotton classification system without any detectable adverse effect. Participation by producers in the program during fiscal years 1982 and 1983 remained at the same high level as it had been in previous years—about 97 percent. The Department projects the same level of participation in fiscal year 1984 as well.

When the Department first implemented a fee for cotton classification services on October 1, 1981, it was established at a level designed to cover only about two-thirds of the cost of the classing services, including administrative and supervisory costs. In fiscal year 1982, the established fee was 60 cents per bale and in fiscal year 1983 the fee was increased to 67 cents per bale. The balance of the cost of the classing system was financed by appropriated funds and by proceeds from the sale of cotton samples accumulated by the Department of Agriculture. For fiscal year 1984, the Department of Agriculture increased the user fee to $1.15 per bale, which is estimated to be sufficient to recover the full cost of the cotton classing program. This last increase placed all agricultural commodity grading services on a full cost recovery basis.

S. 2085 extends the Department's authority to continue to charge producers for cotton classing services through September 30, 1988. In addition to providing for the collection of classification fees from participating producers, the bill will specifically allow agents who voluntarily agree to do so to collect and remit the fees on behalf of producers. This provision is consistent with the intent of Congress as expressed in the conference report on the 1981 amendment and is now being incorporated into the bill to clarify the Department's authority to continue billing voluntary collection agents for the fees, rather than producers. By directly billing the approximately 1,200 ginners and warehousemen, rather than billing individually about 50,000 producers that receive classing services, annual cost savings under the cotton classification system of about $800,000 will result.

The bill also provides that the uniform per bale classification fee in any year shall not exceed the uniform fee collected in the previous year by more than the percentage increase in the Implicit Price Deflator for Gross National Product as indexed during the most recent 12-month period for which official statistics are available. This provision replaces the current overall dollar limit on total revenues that may be raised from the assessment of cotton classing fees. Requested by the cotton industry, this new approach will place a cap on total fees per bale that correlates to annual increases in the rate of inflation. The Implicit Price Deflator for Gross National Product is the Department of Commerce's official standard for measuring the rate of inflation.

In order to assure the cotton industry that fee increases will be based on need, and that large reserves will not be accumulated from the collection of fees, the bill provides that the uniform per bale fee shall not be increased for any year if the accumulated reserve exceeds 20 percent of the cost of the classification program in the previous year. Special classification services provided at the request of the producer, such as high volume instrument classification, would not be subject to the restrictions on fee increases.

The bill also continues the current authority for the Secretary to invest, in interest-bearing accounts, the operating balances of the Department's cotton classing and cotton service testing programs user fee accounts, to help offset program operating costs. The Secretary could also request the Secretary of the Treasury to invest these funds in U.S. Government debt instruments. Accumulated interest also helps offset future revenue requirements. The use of this and similar authority for warehouse fees in current law has, as of January 27, 1984, generated interest income of $82,423. The first investment of $4,029,000 was made on October 13, 1983, in open-ended repurchase agreements at 8.5 percent for 12 days. As of January 27, 1984, five investments of funds collected under the cotton classing and warehouse inspection programs had been made, each for over $1 million, as follows:

Investment dates	Amount invested		Interest earned	
	Cotton	Warehouse	Cotton	Warehouse
Oct. 13, 1983	$2,155,000.00	$1,874,000.00	$6,105.84	$5,309.66
Oct. 25, 1983	1,908,105.84	1,353,309.66	22,579.26	16,014.16
Dec. 2, 1983		1,097,323.82		7,403.13
Jan. 10, 1984	112,000.00	2,292,726.95	442.95	9,067.41
Jan. 27, 1984	108,442.95	1,853,794.36	856.62	14,643.69
Total	4,283,548.79	8,471,154.79	29,984.67	52,438.05

The Committee also adopted an amendment sponsored by Senator Cochran that would allow the Secretary of Agriculture to invest operating balances from the collection of fees for all voluntary inspection and grading programs being conducted by the Department under authority of the Agricultural Marketing Act of 1946. The programs involve various agricultural commodities such as meat, poultry, eggs, and fruits and vegetables. Under these programs, fees collected by the Department for grading and inspection services are currently placed in a trust fund account in the General Fund of the Treasury. As of December 30, 1983, the operating balances in the trust fund account from these collections were as follows:

Fresh products (working capital)	$2,388,000
Processed Products (cash)	4,875,000
Poultry (cash)	1,029,000
Dairy (cash)	4,597,000
Meat (cash)	1,161,000
Total	14,050,000

By authorizing the Secretary to invest the fees collected under these programs, the Committee intends to place all voluntary inspection and grading programs on a comparable basis. Interest accrued will be returned to the programs and be used to help offset future revenue requirements. Precedent for this type of authority had been established under the cotton classing and warehcuse examination programs.

The Committee also believes that continuation of the user fees for cotton classing services and the close coordination of the program with the cotton industry will result in the program being administered by the Department in the most efficient manner possible. This will directly benefit cotton growers and users and will provide equitable treatment to all users of commodity grading activities. In addition, the recovery of these costs removes the burden of paying for these specialized services from the general taxpayer.

COMMITTEE CONSIDERATION

HEARING

On Wednesday, February 8, 1984, the Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices held a hearing on the user fee program for cotton classing services. The hearing was chaired by Senator Thad Cochran.

In his opening statement, Senator Cochran stated that the intent of the legislation is to extend the authority of the Department of Agriculture to charge producers for cotton classing services through September 30, 1988. Senator Cochran mentioned that the legislation has the support of the cotton industry.

Mr. Vern F. Highley, Administrator of the Agricultural Marketing Services, testified on behalf of the Department of Agriculture. Mr. Highley expressed the Department's strong support for S. 2085, explaining that the measure would enable the Department to continue to provide classing services to the cotton industry on a fee basis. Mr. Highley pointed out that enactment of S. 2085 would result in a continued reduction in the appropriated funds needed by the Department of $12 million to $14 million annually.

During questioning, it was pointed out that the Secretary of Agriculture has authority under the cotton classing program to invest collected funds so that interest earned will accrue to the account that incurs the expense and not to the Treasury. Senator Cochran commended this practice and inquired if other user fee programs, administered by the Agricultural Marketing Service, accrue interest in a similar manner. Mr. Highley responded that the other user fee programs involving meat, dairy, poultry, and fresh and processed products do not have the authority to invest funds in interest-bearing accounts. He stated that approximately $13 million to $14 million is collected annually under these other programs and that interest earned on trust fund operating balances would be significant enough to help hold down potential fee increases in the future.

COMMITTEE MARKUP

The Committee met in open session on Wednesday, March 28, 1984, and considered legislation to continue the authority granted the Secretary of Agriculture for recovery of costs associated with cotton classing services to producers.

After briefly describing the provisions of the bill, Senator Cochran offered an amendment to authorize the Secretary of Agriculture or, at the discretion of the Secretary of Agriculture, the Secretary of the Treasury to invest in interest-bearing accounts the operating balances from fees collected in connection with voluntary inspection and grading programs for various agricultural commodities such as meat, poultry, eggs, and fruits and vegetables. The purpose of the amendment was to allow the interest proceeds from such investments, as well as any late payment penalties, to be contributed to the program trust fund account for use in partially offsetting the cost of providing program services, and to help moderate fee increases by offsetting future revenue requirements. The amendment would also place all voluntary inspection and grading programs on a comparable basis.

After a brief discussion, the Committee adopted the amendment by voice vote.

Senator Cochran next offered a technical amendment that was designed to ensure that various provisions incidential to the user fee authority, that were adopted as part of the 1981 amendment, would be continued in effect under the provisions of S. 2085. The technical amendment was agreed to without objection.

Chairman Helms then moved that the Committee report the cotton classing bill as modified. By voice vote, the Committee agreed to report S. 2085, as amended, to the Senate with the recommendation that it pass.

SECTION-BY-SECTION ANALYSIS

Section 1 amends section 3a of the Cotton Statistics and Estimates Act, effective for the period beginning October 1, 1984, and ending September 30, 1988, to require the Secretary of Agriculture to make cotton classification services available to producers of cotton and to provide for the collection of fees for such classification services from participating producers, or from agents who voluntarily agree to collect and remit the fees on behalf of producers. The fees collected, together with the proceeds from sales of cotton samples submitted for classification, must cover, as nearly as practicable, the cost of the services provided, including administrative and supervisory costs. The uniform per bale classification fee to be collected during any year may not exceed the uniform fee collected in the previous year by more than the percentage increase in the Implicit Price Deflator for Gross National Product as indexed during the most recent 12-month period for which official statistics are available, Further, the uniform per bale fee may not be increased for any year if the accumulated reserve exceeds 20 percent of the cost of the classification program in the previous year. Special classification services provided at the request of a producer, such as high volume instrument classification, are not subject to these restrictions.

Section 1 also provides that all cotton samples submitted for classification shall become the property of the United States and shall be sold, except that the samples will not be subject to the provisions of the Federal Property and Administrative Services Act of 1949. In addition, the fees collected for cotton classification services and for cotton service testing, conducted under the authority of section 3d of the Cotton Statistics and Estimates Act, and the proceeds from the sales of samples shall be credited to the current appropriation account that incurs the cost of the services and shall be available without fiscal year limitation to pay the expenses of the Secretary of Agriculture in connection with providing such services. The Secretary may invest the fees and proceeds in insured or fully-collateralized, interest-bearing accounts or, at the discretion of the Secretary, such fees and proceeds may be invested by the Secretary of the Treasury in U.S. Government debt instruments. Any interest earned thereon and late payment penalties must be credited to the appropriation account for use by the Secretary of Agriculture in providing the services. Further, funds are authorized to be appropriated to carry out cotton classification services to the extent that the fees and proceeds from sales of samples are insufficient to cover the full cost of the services.

Section 2 amends section 203(h) of the Agricultural Marketing Act of 1946 to authorize the Secretary to invest in interest-bearing accounts any trust fund operating balances arising from the collection of fees in connection with providing voluntary grading and inspection services for various commodities under that Act. Under this provision, such funds may be invested by the Secretary only in insured or fully-collateralized, interest-bearing accounts or, at the Secretary's discretion, such funds may be invested by the Secretary of the Treasury in U.S. Government debt instruments. Any interest earned on such funds, and any late payment penalties paid, must be credited to the trust fund account that incurs the cost of providing the services under that Act, and will remain available for use without fiscal year limitation.

Administration Views

On January 30, 1984, Chairman Helms received a letter from the Acting Secretary of Agriculture Richard E. Lyng expressing the Department's support for the enactment of S. 2085. This letter, along with the February 8, 1984, testimony to the Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices presented by Mr. Vern F. Highley, Administrator of the Agricultural Marketing Service, Department of Agriculture, in favor of the adoption of S. 2085, follow:

Department of Agriculture,
Office of the Secretary,
Washington, D.C., January 30, 1984.

Hon. Jesse Helms,
Chairman, Committee on Agriculture, Nutrition, and Forestry,
U.S. Senate, Washington, D.C.

Dear Mr. Chairman: We appreciate this opportunity to report on S. 2085, a bill "To amend Section 3a of the Cotton Statistics and

Estimates Act to provide continuing authority to the Secretary of Agriculture for recovering costs associated with cotton classing services to producers."

The Department recommends enactment of S. 2085. This legislation will provide authority to the Department to continue to charge producers for cotton classing services after September 30, 1984.

Specifically, S. 2085 extends the Department's authority to continue to charge producers for cotton classing services through September 30, 1988, and provides for the collection of classification fees from participating producers, or from agents who voluntarily agree to collect and remit the fees on behalf of producers. Fees collected would recover as nearly as practicable the cost of services provided, including administative and supervisory costs. The bill provides that the uniform per bale classification fee in any year shall not exceed the uniform fee collected in the previous year by more than the percentage increase on the Implicit Price Deflator for Gross National Product as indexed during the most recent twelve-month period for which official statistics are available. Further, the bill provides that the uniform per bale fee shall not be increased for any year if the accumulated reserves exceeds twenty percent of the cost of the classification program in the previous year. Special classification services provided at the request of the producer, such as high volume instrument classification, would not be subject to these restrictions.

Pursuant to authority contained in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35, 95 Stat. 373-374), the Department began charging fees on October 1, 1981, for cotton classing services, including administrative and supervisory costs. About two-thirds of the cost of classing for producers was financed by user fees during FY 1982 and FY 1983 at established rates of 60 cents and 67 cents per bale respectively. The balance of the cost was financed by appropriated funds and by proceeds from the sale of cotton samples accumulated by USDA.

Legislative history contained in the conference agreement on the 1981 law enabled the Department to collect fees from agents of producers who voluntarily agreed to perform such services, rather than collect directly from producers. This resulted in a savings in administrative costs in excess of $800,000. The Department, therefore, feels the inclusion of such statutory language in the Cotton Statistics and Estimates Act is in the best interest of the cotton industry for minimizing program operating costs. Such authority, however, should continue to remain permissive in nature.

For FY 1984, the Department recommended full cost recovery for the cotton classing program and, accordingly, instituted a fee of $1.15 per bale. This action in FY 1984 places all agricultural commodity grading services of the Department on a comparable and full cost recovery basis.

Statutory authority for cost recovery of cotton classing services expires, however, at the end of FY 1984. S. 2085 would, therefore, provide authority to the Secretary to continue to recover the costs of such services and, thus, maintain equitable treatment to all users of commodity grading activities. The recovery of such costs is consistent with the Administration's economic recovery program to establish fees for the provision of direct services by the government

to identifiable users. This not only removes the burden from the general taxpayer, but provides for a more efficient allocation of scarce Federal resources.

Participation by producers in the cotton classing program during the first two years of user fees was about 97 percent, unchanged from previous years. We are experiencing about the same level of participation in FY 1984 as well.

The Department has worked closely with the cotton industry in effecting program efficiencies and economies to minimize the impact of the fee. For example, 37 classing facilities have been consolidated into 20 facilities while the quality of service has been maintained or improved. As a result, cumulative savings in personnel, space and utilities have already amounted to millions of dollars. These and other cost-cutting measures are now and will continue to directly benefit the grower through lower user fees.

With enactment of this legislation, we estimate that the annual cost to be recovered, and the continued annual savings to the taxpayer, would be $12 to $14 million.

The Office of Management and Budget advises that enactment of this legislation would be consistent with the Administration's program.

Sincerely,

RICHARD E. LYNG,
Acting Secretary.

Enclosure.

STATEMENT OF VERN F. HIGHLEY, ADMINISTRATOR, AGRICULTURAL MARKETING SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman and Members of the Committee:

We appreciate this opportunity to appear before you today to present the Department's views on S. 2085, a bill "To amend section 3a of the Cotton Statistics and Estimates Act to provide continuing authority to the Secretary of Agriculture for recovering costs associated with cotton classing services to producers." Accompanying me today is Jesse Moore, Director of the Cotton Division, AMS.

Mr. Chairman, the Department strongly supports enactment of S. 2085. The bill will enable the Department to continue providing classing services to the cotton industry on a fee basis. Present authority for charging fees expires September 30, 1984. Moreover, it will allow us to maintain uniformity in our policy for charging fees for all grading services performed by the Department.

During the last several months, representatives of the Department, working in conjunction with various segments of the cotton industry, developed the provisions contained in S. 2085. We had the utmost cooperation from the cotton industry in this effort and are extremely pleased to report that the provisions contained in the bill have been agreed upon by both the Department and the industry.

The Department began charging fees for cotton classing services on October 1, 1981, pursuant to authority con-

tained in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35, 95 Stat. 373-374). During FY 1982 and FY 1983, about two-thirds of the cost of classing for producers was financed by user fees at established rates of 60 cents and 67 cents per bale, respectively. The balance of the cost in those 2 years, including administrative and supervisory costs, was financed by appropriated funds and by proceeds from the sale of cotton samples accumulated by USDA.

In FY 1984, the Department recommended and the Congress approved full cost recovery for the cotton classing program and, accordingly instituted a fee of $1.15 per bale. This action in FY 1984 (1983 crop year) placed all agricultural commodity grading services of the Department on a comparable and full cost recovery basis. As I stated earlier, however, the statutory authority for full cost recovery of cotton classing services expires at the end of FY 1984. Passage of S. 2085 is, therefore, essential in order for the Department to continue to recover the costs of such services and, thus, maintain equitable treatment to all users of commodity grading activities.

Briefly, I will outline the provisions of S. 2085.

First, the bill extends the Department's authority to charge producers for cotton classing services for an additional 4 years, through September 30, 1988.

Secondly, the bill will continue our authority to collect the classification fees from participating producers, or from agents who voluntarily agree to collect and remit the fees on behalf of producers. The authority to collect through voluntary agents, which was initially included by the conferees in their statement of intent on the Omnibus Reconciliation Act of 1981, has enabled the Department to save an estimated $800,000 a year in administrative costs. This has been accomplished through direct billing of approximately 2,000 ginners and warehousemen rather than individually to about 50,000 producers that receive our classing services. The industry has been extremely cooperative in this cost reduction effort and we believe it is important to include statutory language that will enable us to continue to use the services of voluntary collection agents.

Thirdly, S. 2085 provides that the uniform per bale classification fee in any year shall not exceed the uniform fee collected in the previous year by more than the percentage increase in the GNP Implicit Price Deflator Index. In this regard we would use the most recent 12-month period for which official statistics are available. As of the end of 1983 this index was 4 percent over 1982.

Fourth, the bill provides that the uniform per bale fee shall not be increased for any year if the accumulated reserve exceeds 20 percent of the cost of the classification program in the previous year.

Finally, the bill provides that special classification services performed at the request of the producer would not be subject to these restrictions on the calculation of the fee.

Enactment of S. 2085 will result in a continued savings in appropriated funds of $12 to $14 million annually.

Mr. Chairman, this concludes my statement. I will be glad to respond to any questions the Committee may have.

COST ESTIMATE

I.

In accordance with paragraph 11(a) of rule XXVI of the Standing Rules of the Senate, the Committee estimates that enactment of the bill will result in no net budget impact over the life of the bill since expenditures for providing cotton classification services will be offset with fee collections. Failure to enact the bill, however, would result in a need for additional appropriations of $12 million to $14 million annually over the next 5 years.

II.

The cost estimate prepared by the Congressional Budget Office is consistent with the Committee's estimate. The letter to Chairman Helms from that Office reads as follows:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, D.C., April 6, 1984.

Hon. JESSE A. HELMS,
Chairman, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Russell Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed S. 2085, a bill to amend section 3a of the Cotton Statistics and Estimates Act to provide continuing authority to the Secretary of Agriculture for recovering costs associated with cotton classing services to producers, as ordered reported by the Senate Committee on Agriculture, Nutrition and Forestry, March 28, 1984.

The bill authorizes the Secretary of Agriculture to continue to provide cotton classification services to producers and collect user fees in amounts to cover the cost of the service, including administration and supervisory costs, during fiscal years 1985 through 1988. The annual increase of the per bale fee is limited to the increase of the Gross National Product implicit price deflator.

Expenditures for cotton classification services are projected to total $12 million to $14 million annually over the next five years, with offsetting fee collections of similar amounts. Consequently, no net budget impact is expected.

Enactment of this bill would not affect the budgets of state and local governments.

If you wish further details on this estimate, we will be pleased to provide them.

Sincerely,

RUDOLPH G. PENNER.

Regulatory Impact Statement

In compliance with paragraph 11(b) of rule XXVI of the Standing Rules of the Senate, the Committee makes the following evaluation of the regulatory impact that would be incurred in carrying out S. 2085.

The bill amends the Cotton Statistics and Estimates Act, as amended by the Omnibus Budget Reconciliation Act of 1981, to continue classification of cotton for growers on a user fee basis through September 30, 1988. In addition, the bill amends the Agricultural Marketing Act of 1946 to authorize the Secretary of Agriculture, or, at the discretion of the Secretary of Agriculture, the Secretary of the Treasury to invest in interest-bearing accounts trust fund operating balances in connection with voluntary inspection and grading services provided by the Department of Agriculture on a user fee basis. The Department conducts voluntary inspection and grading programs for various agricultural commodities.

The amendment to the Agricultural Marketing Act of 1946 is not a regulatory measure in the sense of imposing Government-established standards or significant economic responsibilities on private individuals or businesses. Instead, this provision will provide a beneficial economic impact on the affected industry. Estimated total annual applicants for such services are: meat—1,150, poultry and eggs—480, dairy—870, and fruits and vegetables—21,054.

Under normal operating circumstances, the Department of Agriculture would have $13 million to $14 million in the affected trust fund account for investment. Based on investments at a projected annual rate of 8.5 percent, the interest accruing to the trust fund would approximate $800,000 to $900,000 annually. Accordingly, the applicants for voluntary inspection and grading services would benefit to the extent that the Department offsets future fee increases by the amount of these additional revenues.

The amendment to the Cotton Statistics and Estimates Act will result in the imposition of financial obligations on the users of cotton classing services, but will not impose regulatory requirements or standards.

Cotton classing services are made available to growers on a voluntary basis and have been provided on a user fee basis since October 1, 1981. About 50,000 cotton growers would continue to be affected by the user charges. Other individuals or businesses affected would be approximately 900 cotton gins and 275 cotton warehouses that sample cotton for classification services, which are used as collection points for the user charge.

Under the bill, cotton growers desiring to have cotton samples classified by the Department would pay a fee (currently set at $1.15 per bale) which could not exceed the fee charged in the previous year by more than the percentage increase in the Implicit Price Deflator for Gross National Product, which was estimated in 1983 at 4 percent. Based on these factors, the maximum uniform per bale fee that could be established for fiscal year 1985 would be $1.20. A fee of this amount should not impose a significant economic hardship on growers.

The bill would not have any impact on the personal privacy of the individuals affected, and is not expected to result in additional bookkeeping or paperwork obligations. In addition, under the cotton classing provisions, to the extent the Department is able to continue utilizing producer agents who voluntarily collect and remit the fees on behalf of producers, substantial savings, estimated to be about $800,000 annually, are expected to be realized.

Some additional paperwork and recordkeeping will be required by the Department in connection with exercising its investment authority under the voluntary inspection and grading programs. This recordkeeping would be lessened to some extent, however, if the function is performed instead by the Department of the Treasury in view of its current ongoing investment activities.

Changes in Existing Law

In compliance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown is roman):

Cotton Statistics and Estimates Act

AN ACT Authorizing the Secretary of Agriculture to collect and publish statistics of the grade and staple length of cotton

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of Agriculture be, and he is hereby, authorized and directed to collect and publish annually, on dates to be announced by him, statistics or estimates concerning the grades and staple length of stocks of cotton, known as the carry-over, on hand on the 1st of August of each year in warehouses and other establishments of every character in the continental United States; and following such publication each year, to publish, at intervals in his discretion, his estimate of the grades and staple length of cotton of the then current crop: *Provided,* That not less than three such estimates shall be published with respect to each crop. In any such statistics or estimates published, the cotton which on the date for which such statistics are published may be recognized as tenderable on contracts of sale of cotton for future delivery under the United States Cotton Futures Act of August 11, 1916, as amended, shall be stated separately from that which may be untenderable under said Act as amended.

* * * * * * *

(Note.—The following provisions are suspended for the period October 1, 1981, through September 30, 1984, by section 156(b) of the Omnibus Budget Reconciliation Act of 1981.)

[Sec. 3a. The Secretary of Agriculture, upon request in writing from any group of producers organized to promote the improvement of cotton who comply with such regulations as he may prescribe, is authorized and directed to determine and to make promptly available to such producers, the classification, in accordance with the official cotton standards of the United States, of any

cotton produced by them. The Secretary of Agriculture is further authorized to pay the transportation charges and to furnish tags and containers for the samples of cotton submitted for classification under this section, and all samples of cotton so classified shall become the property of the Government, and the proceeds of any sales thereof after classification shall be covered into the Treasury of the United States as miscellaneous receipts.]

* * * * * * *

(NOTE.—The following provisions are in effect for the period October 1, 1981, through September 30, 1984, under section 156(b) of the Omnibus Budget Reconciliation Act of 1981.)

SEC. 3a. Effective for the fiscal years ending September 30, 1982, September 30, 1983, and September 30, 1984, the Secretary of Agriculture shall make cotton classification services available to producers of cotton. The Secretary shall further provide for appropriate agencies of the Department of Agriculture to collect directly from participating producers reasonable fees which, together with the proceeds of sales of samples submitted under this section, shall cover as nearly as practicable the cost of the services provided under this section, including administrative and supervisory costs: *Provided,* That the Secretary's net cost estimate (after taking into account the proceeds from the sale of samples) used to calculate the uniform per-bale fee to be collected from producers for such classification services shall not exceed $12,000,000 in the fiscal year ending September 30, 1982, $12,400,000 in the fiscal year ending September 30, 1983, and $13,000,000 in the fiscal year ending September 30, 1984. All samples of cotton submitted for classification under this section shall become the property of the United States, and shall be sold: *Provided,* That such cotton samples shall not be subject to the provisions of the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 471 et seq.). Fees collected under this section and under section 3d of this Act and proceeds from sales of samples shall be credited to the current appropriation account that incurs the cost and shall remain available without fiscal year limitation to pay the expenses of the Secretary incident to providing classification services under this section. The Secretary may deposit such funds in an interest bearing account with a financial institution. If any interest is earned on this account, such interest so earned shall be credited to the account for use by the Secretary in providing such services. There are authorized to be appropriated such sums as may be necessary to carry out the provisions of this section to the extent that financing is not available from fees and the proceeds from the sale of samples.

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(NOTE.—Effective for the period beginning October 1, 1984, and ending September 30, 1988, section 3a of the Cotton Statistics and Estimates Act is amended to read as follows:)

SEC. 3a. Effective for the fiscal years ending September 30, 1985, September 30, 1986, September 30, 1987, and September 30, 1988, the Secretary of Agriculture shall make cotton classification services available to producers of cotton and shall provide for the collection of classification fees from participating producers, or from agents

who voluntarily agree to collect and remit the fees on behalf of producers. Such fees, together with the proceeds from the sales of samples submitted under this section, shall cover as nearly as practicable the cost of the services provided under this section, including administrative and supervisory costs: Provided, That (1) the uniform per bale classification fee to be collected from producers, or their agents, for such classification service in the previous year shall not exceed the uniform fee collected in the previous year by more than the percentage increase in the Implicit Price Deflator for Gross National Product as indexed during the most recent twelve-month period for which official statistics are available, and (2) the uniform per bale classification fee shall not be increased for any year if the accumulated reserve exceeds 20 per centum of the cost of the classification program in the previous year. Special classification services provided at the request of the producer shall not be subject to the restrictions specified in clauses (1) and (2) of the preceding sentence. All samples of cotton submitted for classification under this section shall become the property of the United States, and shall be sold: Provided, That such cotton samples shall not be subject to the provisions of the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 471 et seq.). Fees collected under this section and under section 3d of this Act and the proceeds from the sales of samples shall be credited to the current appropriation account that incurs the cost and shall remain available without fiscal year limitation to pay the expenses of the Secretary incident to providing services under such sections. Such funds may be invested by the Secretary in insured or fully-collateralized, interest-bearing accounts or, at the discretion of the Secretary, by the Secretary of the Treasury in United States Government debt instruments, with the interest earned and any late payment penalties to be credited to the appropriation account for use by the Secretary of Agriculture in providing services under this section and section 3d of this Act. There are authorized to be appropriated such sums as may be necessary to carry out the provisions of this section to the extent that financing is not available from fees and the proceeds from the sales of samples.

* * * * * * *

SEC. 3d. The Secretary of Agriculture is authorized to make analyses of fiber properties, spinning tests, and other tests of the quality of cotton samples submitted to him by cotton breeders and other persons, subject to such terms and conditions and to the payment by such cotton breeders and other persons of such fees as he may prescribe by regulations under this Act. The fees to be assessed hereunder shall be reasonable, and, as nearly as may be, to cover the cost of the service rendered.

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AGRICULTURAL MARKETING ACT OF 1946

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This title may be cited as the "Agricultural Marketing Act of 1946."

SEC. 2202. * * *

SEC. 203. The Secretary of Agriculture is directed and authorized—

(a) To conduct, assist, and foster research, investigation, and experimentation to determine the best methods of processing, preparation for market, packaging, handling, transporting, storing, distributing, and marketing agricultural products: *Provided,* That the results of such research shall be made available to the public for the purpose of expanding the use of American agricultural products in such manner as the Secretary of Agriculture may determine.

(b) To determine costs of marketing agricultural products in their various forms and through the various channels and to foster and assist in the development and establishment of more efficient marketing methods (including analyses of methods and proposed methods), practices, and facilities, for the purpose of bringing about more efficient and orderly marketing, and reducing the price spread between the producer and the consumer.

(c) To develop and improve standards of quality, condition, quantity, grade, and packing, and recommend and demonstrate such standards in order to encourage uniformity and consistency in commercial practices. Within thirty days after the enactment of the Food and Agriculture Act of 1977, the Secretary shall by regulation adopt a standard of quality for ice cream which shall provide that ice cream shall contain at least 1.6 pounds of total solids to the gallon, weigh not less than 4.5 pounds to the gallon and contain not less than 20 percent total milk solids, constituted of not less than 10 percent milkfat. In no case shall the content of milk solids not fat be less than 6 percent. Whey shall not, by weight, be more than 25 percent of the milk solids not fat. Only those products which meet the standard issued by the Secretary may bear a symbol thereon indicating that they meet the Department of Agriculture standard for "ice cream".

(d) To conduct, assist, foster, and direct studies and informational programs designed to eliminate artificial barriers to the free movement of agricultural products.

(e) To foster and assist in the development of new or expanded markets (domestic and foreign) and new and expanded uses and in the moving of larger quantities of agricultural products through the private marketing system to consumers in the United States and abroad.

(f) To conduct and cooperate in consumer education for the more effective utilization and greater consumption of agricultural products: *Provided,* That no money appropriated under the authority of this Act shall be used to pay for newspaper or periodical advertising space or radio time in carrying out the purposes of this section and section 203(e).

(g) To collect and disseminate marketing information, including adequate outlook information on a market-area basis, for the purpose of anticipating and meeting consumer requirements, aiding in the maintenance of farm income, and bringing about a balance between production and utilization of agricultural products.

(h) To inspect, certify, and identify the class, quality, quantity, and condition of agricultural products when shipped or received in interstate commerce, under such rules and regulations as the Secretary of Agriculture may prescribe, including assessment and collection of such fees as will be reasonable and as nearly as may be to cover the cost of the service rendered, to the end that agricultural products may be marketed to the best advantage, that trading may be facilitated, and that consumers may be able to obtain the quality product which they desire, except that no person shall be required to use the service authorized by this subsection *Provided, That any operating balances from the collection of fees under this subsection may be invested by the Secretary of Agriculture in insured or fully-collateralized, interest-bearing accounts or, at the discretion of the Secretary of Agriculture, by the Secretary of the Treasury in United States Government debt instruments, with the interest earned and any late payment penalties to be credited to the trust fund account that incurs the cost of the services rendered under this Act and to be available without fiscal year limitation to cover the expenses of the Secretary of Agriculture incident to providing such services.* Any official certificate issued under the authority of this subsection shall be received by all officers and all courts of the United States as prima facie evidence of the truth of the statements therein contained. Whoever knowingly shall falsely make, issue, alter, forge, or counterfeit any official certificate, memorandum, mark, or other identification, or device for making such mark or identification, with respect to inspection, class, grade, quality, size, quantity, or condition, issued or authorized under this section or knowingly cause or procure, or aid, assist in, or be a party to, such false making, issuing, altering, forging, or counterfeiting, or whoever knowingly shall possess without promptly notifying the Secretary of Agriculture or his representative, utter, publish, or use as true, or cause to be uttered, published, or used as true, any such falsely made, altered, forged, or counterfeited official certificate, memorandum, mark, identification, or device, or whoever knowingly represents that an agricultural product has been officially inspected or graded (by an authorized inspector or grader) under the authority of this section when such commodity has in fact not been so graded or inspected shall be fined not more than $1,000 or imprisoned not more than one year, or both.

(i) To determine the needs and develop or assist in the development of plans for efficient facilities and methods of operating such facilities for the proper assembly, processing, transportation, storage, distribution, and handling of agricultural products.

(j) To assist in improving transportation services and facilities and in obtaining equitable and reasonable transportation rates and services and adequate transportation facilities for agricultural products and farm supplies by making complaint or petition to the Interstate Commerce Commission, the Maritime Commission, the Civil Aeronautics Board, or other Federal or State transportation regulatory body or the Secretary of Transportation with respect to rates, charges, tariffs, practices and services, or by working directly with individual carriers or groups of carriers.

(k) To collect, tabulate, and disseminate statistics on marketing agricultural products, including, but not restricted to statistics on

market supplies, storage stocks, quantity, quality, and condition of such products in various positions in the marketing channel, utilization of such products, and shipments and unloads thereof.

(l) To develop and promulgate, for the use and at the request of any Federal agency or State, procurement standards and specifications for agricultural products, and submit such standards and specifications to such agency or State for use or adoption for procurement purposes.

(m) To conduct, assist, encourage, and promote research, investigation, and experimentation to determine the most efficient and practical means, methods, and processes for the handling, storing preserving, protecting, processing, and distributing of agricultural commodities to the end that such commodities may be marketed in an orderly manner and to the best interest of the producers thereof.

(n) To conduct such other research and services and to perform such other activities as will facilitate the marketing, distribution, processing, and utilization of agricultural products through commercial channels.

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Calendar No. 776

98TH CONGRESS
2d Session

SENATE

REPORT
98-396

TASK FORCE ON AGRICULTURAL CREDIT

APRIL 12 (legislative day, MARCH 26, 1984.—Ordered to be printed

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Mr. HELMS, from the Committee on Agriculture, Nutrition, and Forestry, submitted the following

REPORT

together with

ADDITIONAL VIEWS

[To accompany S. Res. 287]

The Committee on Agriculture, Nutrition, and Forestry, to which was referred the resolution (S. Res. 287) establishing a task force on agricultural credit, having considered the same, reports favorably thereon with an amendment and an amendment to the preamble and recommends that the resolution as amended do pass.

SHORT EXPLANATION

Senate Resolution 287 expresses the sense of the Senate that the President should appoint an agricultural credit task force to examine the credit problems confronting agricultural producers and related businesses and make a report to the President and Congress on these problems. The report will also include any recommendations made by the task force for resolving these credit problems.

COMMITTEE AMENDMENT

The Committee amendment to the resolution strikes all after the resolving clause and inserts a substitute text. The substitute text contains an amendment offered by Senator Huddleston that specifies that the agricultural credit task force should submit its report as soon as practicable, but not later than January 1, 1985, and that the task force should terminate not later than 12 months after its

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establishment. The substitute text also makes several technical and conforming changes in the language of the resolution.

PURPOSE AND NEED

Agriculture is this country's largest industry and its biggest employer. Over 23 million jobs involve some phase of agriculture, accounting for approximately 22 percent of our work force. The importance of the men and women who produce our food and fiber goes well beyond our own country, as the fruits of this industry are used to feed and clothe many people outside the United States. Thus, our society depends upon a strong and stable agriculture.

One of the most important components of a successful agricultural enterprise is an adequate and reliable source of credit. Farming is highly capital intensive and, in most cases, is dependent on the availability of credit for its survival. Without sufficient credit at reasonable rates and terms, farming, and especially family farming, will have an uncertain future.

Stress in the agricultural economy has been a contributing factor to an increased debt load for our farmers. Agricultural-related debt rose from $50 billion in 1970 to $215 billion in 1983, and the interest payments on farm debt have more than quadrupled. To make matters worse, this additional debt has not been accompanied, in all cases by a comparable increase in producer equity. Producers who have incurred large debts without an increase in equity are severely hampered in their efforts to find suitable financing to continue their operations.

Credit is extended for agricultural purposes from several sources. The Farm Credit System, along with commercial banks, life insurance companies, the Farmers Home Administration, the Commodity Credit Corporation, and individual lenders, provide farmers and agricultural-related businesses with the credit necessary to sustain their operations. This diverse group of lenders has been able to meet, for the most part, the credit needs of agriculture in the past. However, information from these lenders and other sources indicates the need for a careful review of how the financing requirements of agriculture will be met in the future.

There is considerable controvery about how the Federal Government, as well as private lending institutions, should respond to the credit problems of the agricultural community. To put these issues into perspective and to effectively analyze the options to deal with the problems, the Committee believes that a special Presidential task force should be established to provide a detailed examination of the agricultural credit situation in the United States.

To obtain a thorough understanding of the problems facing farmers, ranchers, and agribusinessmen, and to deal with these problems in a timely fashion, it is essential that a thoughtful, comprehensive study be undertaken this year. A task force composed of representatives of all major segments of agriculture, including farmers, suppliers, marketing personnel, and lenders, could provide the objective expertise to develop specific policy and legislative recommendations to ensure the availability of agricultural credit at reasonable rates and terms.

Committee Markup

The Committee met on March 28, 1984, to mark up S. Res. 287. Senator Cochran, the sponsor of the resolution, noted that it had been introduced in November 1983, and is sponsored by 18 members, including 10 members of the Committee. Senator Cochran then urged that the resolution be reported from the Committee.

Senator Huddleston, a cosponsor of the resolution, then offered an amendment to the resolution to specify that the credit task force should file its report as soon as practicable, but not later than January 1, 1985, and that the task force should terminate not later than 12 months after its establishment.

Senator Cochran suggested that Senator Huddleston's amendment be incorporated into the resolution. By voice vote, the Huddleston amendment was adopted and the resolution, as amended, was ordered reported to the Senate with the recommendation that it pass.

Section-by-Section Analysis

The resolution states that it is the sense of the Senate that the President should appoint an agricultural credit task force for the purposes of (1) examining credit problems in agriculture, (2) reporting to the President and Congress on the credit problems confronting agricultural producers and related businesses, and (3) making recommendations for resolving the problems that are identified.

Specifically, the resolution provides that the task force should—

(1) identify and describe the existing agricultural credit system and the credit needs of agricultural producers and related businesses,

(2) evaluate the existing agricultural credit system's ability to meet producers' credit needs, and

(3) develop for the President and Congress specific policy and legislative recommendations to ensure the availability of adequate agricultural credit at a reasonable cost.

The resolution also states that the task force should be composed of at least 15 members and should be balanced so as to represent all major segments of agriculture, such as farmers, suppliers, marketing personnel, and lenders. The task force should complete its report, containing a detailed set of findings and recommendations, as soon as practicable, but not later than January 1, 1985, and transmit the report to the President and Congress. The task force should terminate not later than 12 months after being established.

Administration Views

On December 16, 1983, Senator Cochran and Senator Huddleston wrote to the President concerning the creation of a special task force on agricultural credit. Senator Cochran's and Senator Huddleston's letter, along with Secretary of Agriculture John R. Block's response to that letter and a letter transmitting a copy of the response to Chairman Helms, read as follows:

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION,
AND FORESTRY,
Washington, D.C., December 16, 1983.

The PRESIDENT,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: We urge you to establish a task force to review our Nation's agricultural credit industry and Federal agricultural credit policies. We believe that such a task force should develop policy recommendations designed to ensure the availability of credit, at reasonable rates of interest, to agricultural producers.

The combination of increasing capital requirements and volatile economic returns on investment has proven disastrous for many farmers. For example, a recent survey of 977 banks conducted by the Independent Bankers Association of America (an organization representing many small banks located in rural areas) found that bankers expect over 17 percent of their existing farm loan borrowers "will be unable to service their debt" in 1984.

Farmers who have turned for assistance to the lender of last resort, the Farmers Home Administration, have been particularly affected by the current severe agricultural credit problems. In recent years, the agency has initiated an unprecedented number of liquidation actions, which has embroiled the agency in numerous law suits.

We are concerned that unless steps are taken to resolve the credit crisis that threatens many individual farmers, these problems will lead to difficulties for many agricultural lenders and farm-related businesses.

We believe that a careful, unbiased examination of our Nation's agricultural credit industry and Federal agricultural credit policies will assist the administration and Congress in developing legislative remedies. For that reason, we have introduced Senate Resolution 287, which calls for the establishment of a Presidential task force to study agricultural credit problems. However, in the interest of addressing this issue expeditiously, we urge you to establish the task force as soon as practicable in accordance with the provisions of the resolution.

Further, to enhance the credibility of the task force, we urge you to follow the precedent established with the formation of the task force on Social Security. By working with members of Congress to define task force objectives and in making appointments that represent the diverse groups involved with agricultural credit, you will ensure the objectivity of the task force.

We look forward to working with you on this matter.

Sincerely,

THAD COCHRAN,
WALTER D. HUDDLESTON.

THE UNDER SECRETARY OF AGRICULTURE,
Washington, D.C., April 10, 1984.

Hon. JESSE HELMS,
Chairman, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Knowing of your interest in an Agricultural Task Force, I am sending you a copy of a letter Secretary Block sent to Senators Cochran and Huddleston on February 14.

As you will note, the Secretary has directed Under Secretary Naylor to chair a working group on agricultural credit to examine these important issues. We look forward to working closely with you on this matter.

Sincerely,

JAMES H. JOHNSON,
Acting Under Secretary for Small Community and Rural Development.

Enclosure.

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., February 13, 1984.

Hon. THAD COCHRAN,
U.S. Senate,
Washington, D.C.

DEAR THAD: The President has requested that I respond to your letter of December 16, 1983 concerning your recommendation for the creation of a Special Task Force on Agriculture Credit.

As you know, President Reagan has requested that we make extensive use of the Cabinet Council on Food and Agriculture which I chair to commence the dialogue necessary to formulate the issues and steps needed leading to new farm legislation in 1985.

You correctly point out that agricultural lending is a critical component of these considerations. Therefore, after reviewing your recommendation and our own on-going oversight of credit activities, I have asked Under Secretary Frank Naylor to chair a working group on agricultural credit and rural development to examine these issues in great detail as part of our efforts leading to the preparation of 1985 farm legislation.

As we have previously discussed, the Administration has maintained close liaison with the private sector banking community and the cooperative Farm Credit System on agricultural credit matters through the Department's ad hoc credit advisory committee which has met and exchanged information on a regular basis for the last two years. I have asked Under Secretary Naylor to make use of the talents reflected by this group and to expand its scope to obtain the broadest possible input from the private sector, including the Farm Credit System, as we examine and evaluate the needs of agricultural credit in the year ahead.

I am personally most appreciative of your interest and welcome your support of this important area of concern. I am confident that this plan likewise is consistent and supportive of your recommendations concerning credit issues.

Sincerely,

JOHN R. BLOCK, *Secretary.*

ADDITIONAL VIEWS OF MR. HUDDLESTON

The last several years have been most difficult for our Nation's farmers. The declining value of farm assets, high interest rates, and low farm income have combined to create a severe credit crisis for many farmers.

Although the farm credit situation has been deteriorating for several years, the administration has refused to take timely measures to improve conditions. Each day the administration allows to pass without applying some remedy, it becomes that much more difficult to reverse the trend.

INDICATORS OF THE ADMINISTRATION'S POLICY FAILURES

The threat of foreclosure is the most serious and demoralizing aspect of the current depressed agricultural economy. Although some would say that the media has sensationalized the financial problems of farmers, I believe there is an abundance of evidence to support the headline on a story that recently appeared in one of the newspapers in my state: "Losers are long gone; now it's good farmers going under".

During the last 2 years, over 15,000 farmers with Farmers Home Administration (FmHA) loans have been forced to liquidate their operations for financial reasons. In overseeing record numbers of farm liquidations since 1981, FmHA has taken over 2,000 farms into its inventory. Prior to the current administration, the number of farms held by FmHA had never exceeded 260. The farms held by FmHA consist of about 418,000 acres having a value of $440 million.

FmHA borrowers are not the only farmers experiencing difficulty. In 1983, the Farm Credit Administration reported that Production Credit Association (PCA) loan losses for the previous 3 years exceeded the combined losses for the preceding 47 years.

In his annual report to Congress, submitted in February of this year, the Governor of the Farm Credit Administration said that PCAs in 1983 were "subject to the worst financial pressure since the 1930's. The estimated $240–$250 million in losses sustained by PCAs in 1983 represents, in 1 year, approximately 40 percent of all losses throughout their 50-year existence." Further, the report stated that the System "will likely face more difficulty in 1984 than in 1983."

In addition, a survey conducted by the Independent Bankers Association of America found that, among its most rural member banks, the lenders expect that about 17 percent of their present farm borrowers will not be able to meet all of their loan payments in 1984.

A survey conducted by the agricultural division of the American Bankers Association found that nearly 66 percent of the bankers surveyed estimated that the net worth of their farm borrowers declined during 1983.

ACTION BY CONGRESS NEEDED

Earlier this year, I outlined an agenda for action that should be taken by Congress this year to meet the needs of the hard-pressed

agricultural economy. Senate Resolution 287, calling for the establishment of a presidential task force to study agricultural credit problems and make recommendations on policy changes, is one of a series of proposals I have developed or sponsored as part of that agenda.

My other credit proposals include the recently-enacted Emergency Agricultural Credit Act of 1984 and S. Con. Res. 99, legislation designed to curb the number of agricultural loans being classified as "problem loans" by Federal bank examiners.

The enactment of the Emergency Agricultural Credit Act of 1984 and the Agriculture Committee's favorable report on S. Res. 287 are steps in the right direction. However, I am disappointed that other actions on agricultural credit, needed for some time, have not been taken.

For example, existing law requires Congress specifically to reauthorize every 3 years, and set lending limits for, the FmHA farm credit programs, which provide farmers with an essential safety net. Although the previous 3-year authorization under this requirement expired at the end of fiscal year 1981, a new 3-year reauthorization has not been enacted. Reauthorization legislation was reported by the Committee during the 97th Congress (S. 2314) but was never considered by the Senate. No action has been taken on the matter during the current Congress and agricultural credit legislation was not mentioned in the Committee's 1984 agenda, released on December 22, 1983, by the Committee chairman.

It is my hope that the enactment of the Emergency Agricultural Credit Act of 1984 and the favorable report on this legislation are signs that the administration and Congress are beginning to take cognizance of the agricultural credit crisis, and that we will see further action on needed agricultural legislation in the coming months.

It must be said, however, that a major source of the credit problems facing U.S. farmers—high interest rates—cannot be easily dealt with in agricultural credit legislation. Any comprehensive solution to agricultural credit problems must include action by the administration to reverse the dangerous economic policies that threaten to perpetuate excessive interest rates.

Larger Economic Problems Adversely Affect Agricultural Credit

Beginning in the 1970's, we have seen what are normally considered financial and banking issues growing in importance to the agricultural economy. Prior to about 1970, farmers and agricultural lenders did not have to concern themselves with such things as the value of the dollar or the financing of the national debt. Today, those matters have a direct bearing on commodity prices and on interest rates, and thus on the profitability of farming and the financing of farm operations.

In the 1970's, farmers began to see that their ability to earn a living was directly related to our Nation's ability to export agricultural products.

More recently, the farm economy has been affected by another international event—the influence of foreign investment on U.S. interest rates.

According to the Congressional Budget Office, since 1981, the Federal deficit has gone from 2 percent of the gross national product to 6 percent. The burden on U.S. business and on agriculture caused by this crushing debt load has, so far, been lessened by the flow of foreign capital into the United States. Nearly half of the increase in the deficit has been directly or indirectly financed with funds from overseas.

Regarding the significance of financing the deficit with funds from overseas, in a report issued in February, the Congressional Budget Office said this:

> For now, foreigners seem willing to continue acquiring U.S. financial claims, spurred by high yields on dollar assets and by optimism as to the economic and political stability of the United States. The longer-run outlook is less certain. Even if interest rates remain high, foreigners may hesitate to continue investing in U.S. assets if massive U.S. trade deficits make them fear a depreciation of the dollar, or if they grow concerned over U.S. fiscal policy. If the inflow of foreign funds were to cease because of such a lack of confidence, substantial upward pressure on domestic interest rates would result, intensifying the crowding out of interest-sensitive domestic expenditures and making it even more difficult for developing countries to service their dollar debts. Another consequence would be a depreciation of the dollar, imparting an inflationary impulse to the American economy.

Further, investment in the United States by foreigners is not limited to Treasury securities. Significant amounts of foreign funds are flowing directly into farm communities as a result of purchases by foreigners of Farm Credit System securities, issued to obtain funds for the System.

Farm Credit System officials estimate that about 18 to 20 percent of the System's $70 billion in outstanding securities is held by foreign investors.

The Congressional Budget Office has issued a warning to the administration about the consequences of relying on foreign capital to finance the Federal deficit and meet other domestic credit needs. The following statement was included in another report recently issued by that office:

> Fortunately, very large capital inflows from abroad have so far limited the rise in interest rates. It should be emphasized that these capital inflows are not a costless remedy for deficits. If capital inflow continued for a long time, foreign claims on U.S. output (interest and dividend payments to foreigners) could rise to such a level that they would reduce the U.S. standard of living significantly below what it would be with less government borrowing and lower capital inflows.

It should be noted that the economic and political conditions that have attracted foreign capital to U.S. investments have increased the value of the dollar—and hampered export sales. If the value of the dollar decreases relative to other currencies, as is necessary to improve export markets, foreign investors can be expected to withdraw their investments from the U.S. and interest rates will rise sharply.

It is evident, then, that the administration's fiscal policies are taking our Nation's farmers down a road to bankruptcy.

Because of already dangerously low profit margins, farmers cannot afford higher interest rates that would result if foreign investors withdrew their funds; nor can farmers continue to survive with annual decreases in the volume of farm exports due to the high value of the dollar.

Higher interest rates, in particular, would be devastating for our Nation's farmers. Few other industries are so sensitive to interest rates. Information provided by the Department of Agriculture illustrates this point.

In 1972, farm production expenses totaled $52.8 billion. In 1982, they totaled $140 billion. That represents a 165 percent increase in 10 years. During the same time, interest expenses for production went from $2.2 billion to $10.4 billion, an increase of 376 percent.

Also, total farm debt is currently about $215 billion. If the average interest rate on that debt was reduced by 2 percent, that would translate into over $4 billion in lower farm expenses. An additional $4 billion in net farm income would be almost a 15-percent increase over projected net farm income for 1984 and that would be a significant difference for many marginal operators.

Of course, an increase in interest rates would have the opposite effect on farm income. In that regard, I will note that within the last 3 weeks, the prime rate of interest has been raised twice by the large banks.

It is clear the administration needs to take steps to reform its fiscal policies so that interest rates can be reduced without relying on foreign investment. Fiscal policies that would result in lower interest rates for an extended period of time would be an effective means of stabilizing the farm economy and improving farm income.

Conclusion

The many problems surrounding farm credit are complex and serious, and are related to other aspects of the national economy. Federal farm credit programs cannot address the weaknesses in the overall economy caused by the administration's bankrupt fiscal policies, but they must be adjusted to reflect the credit problems for farmers stemming from these policy failures.

These considerations provide a strong argument for the creation of a presidential task force to analyze the situation and make recommendations on changes in agricultural credit policy, as provided in Senate Resolution 287.

A careful, unbiased examination of our Nation's agricultural credit industry and Federal agricultural credit policies will assist the administration and Congress in developing legislative remedies.

To enhance the credibility of the task force, the President should follow the precedent established with the formation of the task force on Social Security, as I have urged him to do. By working with members of Congress to define task force objectives and in making appointments that represent the diverse groups involved with agricultural credit, the President will ensure the objectivity of the task force. It would be a serious mistake for the administration to attempt to use the task force to justify discredited policies.

Also, it is important that the work of the task force be completed quickly. It has become clear to me that decisive action to meet agricultural credit needs cannot be delayed any further if we are to avoid irreversible injury to our Nation's family farm system of agriculture.

WALTER D. HUDDLESTON.

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